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C O N F I D E N T I A L SECTION 01 OF 03 CHISINAU 000846

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PREL](#) [PBTS](#) [RS](#) [MD](#)
SUBJECT: RUSSIAN ENERGY GIANT COMPLETES TAKEOVER
OF MOLDOVAN POWER PLANT IN TRANSNISTRIA

Classified By: Charge d'Affaires Kelly A.
Keiderling for reasons 1.4(b) and (d)

11. (C) Summary: On August 1, Russian energy giant Inter RAO EES announced that it had completed acquisition of 100 per cent of shares in the Moldovan State Power Plant located in Kuchurgan, Transnistria, landing yet another major Transnistrian industrial site in Russian hands. This transaction completed a process which began in 2003 and used murky purchases by off-shore Belgian, Finnish and Cypriot front companies to mask Russian participation during the early stages of privatization. Acquisition of the power plant was a critical link in a larger Russian strategy to acquire control over Transnistria's key economic assets. The Government of Moldova does not recognize this, or any other, privatization of large governmental assets in Transnistria. One key Russian goal in any political settlement leading to reintegration is to have its privatized assets recognized. Once its economic control over the region is consolidated, Russia may become more flexible about allowing a political settlement in Transnistria. End Summary.

Moldova's Largest Power Station

12. (U) The Kuchurgan Power Station was built during the Soviet era (operations started in 1964) as Moldova's largest power station. Also known as Moldavskaya GES or the Cuciurgan plant, it was located in Transnistria as part of a Soviet strategic plan to concentrate Moldova's industrial strength on the left bank. During the Soviet era, this plant provided 100 percent of Moldova's electricity, in addition to serving the Odessa region and exporting energy to Bulgaria. It is one of the largest thermal power plants of its type in Europe.

13. (U) When operating at full strength, the Kuchurgan plant can produce about 2.5 megawatts. Moldovan demand ranges from 1.1 to 1.2 megawatts. In November 2005, when the Kuchurgan plant attempted to raise the price of electricity for right-bank consumers by 30 percent, Chisinau refused to continue purchasing its electric power from the plant, and opted instead for cheaper imports from Ukraine. According to press reports, Inter RAO plans to expand its sales of electricity to Eastern Europe. Exports to Romania will be in the range of 900 million kWh

for 2008, and are set to increase in the coming years.

The Russian Acquisition Methodology

14. (U) According to press reports, in 2003 the Transnistrians sold the power station to a Belgian company, Saint Guidon Invest, at a selling price of USD 29 million (with the stipulation that the purchaser should invest USD 150 million in the plant). In 2005 Saint Guidon ceded 51 percent of its shares to a Finnish Company, RAO Nordic (which was actually a subsidiary of Inter RAO) in a transaction valued at USD 50 million. The other 49 percent was sold to RAO EAS, another daughter company branch of Inter RAO which then sold its shares again for about USD 40 million. At one point it was rumored that a Ukrainian oligarch had purchased the 49 percent of shares. On August 1, 2008, Inter RAO reported that it had acquired the remaining 49 percent of the plant by buying out the Freecom Trading Ltd (Cyprus) in a deal worth USD 163 million. Investigative journalists and Moldovan think tanks have accumulated a body of information, far too voluminous to repeat here, about the process by which Saint Guidon was set up as a front company and carried out the first step in the Russian acquisition process.

15. (C) The changing ownership of the Kuchurgan
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plant is instructive as a model repeated at the MMZ plant, the Rybnita Cement factory, and other industrial sites. The first step involved Transnistrian devaluation of the company through bad management and corruption. Ghost companies with foreign European registration then purchased undervalued shares for a song. Official Transnistrian propaganda mouthpieces publicized the economic progress represented by European investment and the success of Transnistrian privatization. Through a series of transactions, asset ownership was repeatedly transferred, rising dramatically in value each time, allowing tens or hundreds of millions of dollars to mysteriously change hands, while handsomely rewarding the willing participants.

16. (C) Conspiracy-minded Moldovans charge that two Russian Duma deputies made huge profits for themselves while Transnistria implemented unrecognized privatization of Moldovan state assets -- Vice President of the Russian Chamber of Deputies Sergei Baburin, and OMON Special Forces "black colonel" Viktor Alksnis, who played a role in crushing the Latvian pro-independence movement in 1991. Transnistrian "Minister of State Security" Antiufeev was a Russian general who served with Alksnis as an OMON commander in Latvia at that time. Transnistrian "Minister of Justice" Victor Balala oversaw the Transnistrian privatization process, but was forced by TN Supreme Soviet (parliament) Chairman Evgeny Shevchuk and his Obnovlenie Party majority to resign in July 2005. Having formerly been a staffer in the Russian Duma, Balala quickly left Transnistria and returned to Moscow to assume a post as Baburin's assistant. As Balala is a nephew of Smirnov's wife, there is little doubt that his supervision of this deal as a member of the Transnistrian privatization committee also enriched the Smirnov family.

GOM Refuses to Recognize TN Privatization

17. (C) The Government of Moldova refuses to recognize the privatization of the Kuchurgan plant and other Moldovan state-owned assets in Transnistria. In an August 13 meeting with Charge and Pol/Econ Chief, Minister for Reintegration Vasile Sova stressed that the Government did not and would not recognize these privatizations, and underscored that such recognition could come only within the context of a package settlement in the 5-plus-2 framework. Viewing the plant as Moldovan state property, Sova argued that Transnistria, which does not exist as a legal entity, did not have the juridical right to sell Moldovan property. According to Sova and the GOM, this privatization was carried out in violation of the Moldovan Law on Privatization.

Comment: Russia Seeks 5-plus-2 Recognition

18. (C) In discussing Russia's 5-plus-2 goals, Russian Embassy interlocutors have repeatedly told us that, in addition to guarantees of Moldova's neutrality, Russia sought legal recognition of its acquisitions of privatized property in Transnistria. As Russian entities have systematically acquired Transnistria's key industrial sites, they now control much of the TN economy (with the possible exception of the portion run by the TN conglomerate Sheriff; the extent of Russian control of the capital behind Sheriff is difficult to judge.) Russia's consolidation of economic control over Transnistria gives it additional cards to play in the political process. With Transnistrian heavy industry in Russian hands, significant Russian control over Moldova's energy sector, and the ability to harm Moldova's economy by blocking Moldovan exports to Russia, Russia will be able to exert pressure on Moldova for the long run. Even if Russia finally chooses to resolve the

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Transnistrian conflict and remove its troops from the left bank, the resulting unified Moldova may find itself a vassal state, beholden to Russia for many years to come.

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